



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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January 22, 2009

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe *Wendy L. Watanabe*
Acting Auditor-Controller

SUBJECT: **CHILDNET YOUTH AND FAMILY SERVICES CONTRACT
COMPLIANCE REVIEW – A DEPARTMENT OF CHILDREN AND
FAMILY SERVICES AND MENTAL HEALTH SERVICE PROVIDER**

We completed a fiscal and program review of ChildNet Youth and Family Services (ChildNet or Agency) to determine the Agency's compliance with two separate County contracts. The Agency contracts with the Department of Children and Family Services (DCFS) to operate the Wraparound Approach Services (Wraparound) Program, and the Department of Mental Health (DMH) to provide mental health services.

Background

Under the Wraparound Program, ChildNet, a private non-profit community-based organization, provides individualized services to children and their families such as, therapy, housing, educational and social assistance. Under the contract with DMH, ChildNet provides mental health services which include interviewing program participants, assessing their mental health needs and developing and implementing a treatment plan. ChildNet is located in the Fourth District.

DCFS paid ChildNet on a fee-for-service basis at \$4,184 per child, per month or \$663,811 for Fiscal Year (FY) 2007-08. DMH paid ChildNet between \$1.83 and \$4.36 per minute of staff time (\$109.80 to \$261.60 per hour) and had a contract with ChildNet for approximately \$7.6 million.

Purpose/Methodology

The purpose of the program review of the mental health services was to determine the appropriateness of the services provided based on available documentation. This included a review of a sample of the Agency's billings, participant charts and personnel and payroll records. We also interviewed a number of the Agency's staff.

The purpose of the fiscal review of the Wraparound Program and mental health services was to determine whether ChildNet appropriately accounted for and spent Wraparound and DMH program funds providing the services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines.

Results of Review

DMH Program Review

ChildNet maintained documentation to support the mental health services billed to the County. The Agency completed the Assessments, Client Care Plans and Progress Notes in accordance with mental health program requirements. In addition, the staff possessed the required qualifications to provide mental health services.

DMH and Wraparound Fiscal Review

ChildNet's FY 2006-07 Cost Report reconciled to the Agency's accounting records and the Agency maintained adequate controls over cash and revenue. In addition, ChildNet appropriately charged payroll expenditures to the DMH's Mental health and DCFS' Wraparound Programs.

At the end of each DCFS' Wraparound program year, the Agency is allowed to retain unspent funds up to ten percent of their program expenditures and return any funds in excess of ten percent to the County. For FY 2006-07, ChildNet's unspent Wraparound funds totaled \$61,717 and program expenditures totaled \$123,691. As a result, ChildNet should have reserved \$12,369 (10% of \$123,691) and repaid DCFS \$49,348 (\$61,717 - \$12,369).

The details of our review along with recommendations for corrective action are attached.

Review of Report

We discussed the results of our review with ChildNet on August 26, 2008. In their attached response, the Agency requested authorization to keep the excess Wraparound funds received in FY 2006-07 and utilize them in subsequent years. DCFS indicated

that they will not approve the Agency's request and will require them to repay DCFS the excess Wraparound funds.

We thank ChildNet management for their cooperation and assistance during this review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:DC:EB

Attachment

- c: William T Fujioka, Chief Executive Officer
- Dr. Marvin J. Southard, Director, Department of Mental Health
- Patricia S. Ploehn, Director, Department of Children and Family Services
- Ted Myers, Chief Deputy Director, Department of Children and Family Services
- Susan Kerr, Senior Deputy Director, Department of Children and Family Services
- Robert Di Stefano, President/CEO, ChildNet Youth and Family Services
- Public Information Office
- Audit Committee

**DEPARTMENT OF MENTAL HEALTH AND WRAPAROUND PROGRAMS
CHILDNET YOUTH AND FAMILY SERVICES
FISCAL YEAR 2007-08**

BILLED SERVICES

Objective

Determine whether ChildNet Youth and Family Services (ChildNet or Agency) provided the services billed in accordance with their contract with the Department of Mental Health (DMH).

Verification

We judgmentally selected 40 billings totaling 4,536 minutes from 486,968 service minutes of approved Medi-Cal billings for October and November 2007. We reviewed the Assessments, Client Care Plans and Progress Notes maintained in the clients' charts for the selected billings. The 4,536 minutes represent services provided to 25 program participants.

Results

Overall, ChildNet maintained documentation to support the minutes billed. In addition, the Agency completed the Client Care Plans, Assessments and Progress Notes in accordance with program requirements.

Recommendation

There are no recommendations for this section.

STAFFING LEVELS

Objective

Determine whether the Agency maintained the appropriate staffing ratios for applicable services.

We did not perform test work in this section as the Agency did not provide services that required compliance with staffing ratios.

STAFFING QUALIFICATIONS

Objective

Determine whether ChildNet treatment staff possessed the required qualifications to provide the services.

Verification

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 22 (30%) of the 73 ChildNet treatment staff who provided services to DMH clients during October and November 2007.

Results

Each employee reviewed possessed the qualifications required to deliver the services billed.

Recommendation

There are no recommendations for this section.

SERVICE LEVELS**Objective**

Determine whether ChildNet's reported service levels varied significantly from the service levels identified in the DMH contract.

We did not perform test work in this area as DMH's contract with ChildNet did not specify the required service levels for each type of service provided for Fiscal Year (FY) 2006-07.

UNSPENT REVENUE

ChildNet's contract with DCFS allowed the Agency to retain unspent Wraparound funds up to ten percent of their operating expenditures in a reserve account for future Wraparound expenditures and return any Wraparound funds in excess of ten percent to the County.

For FY 2006-07, ChildNet reported unspent revenue totaling \$61,717 and program expenditures totaling \$123,691. As a result, ChildNet should have reserved \$12,369 (10% of \$123,691) for future Wraparound Program expenditures to ensure the funds are used for the Wraparound Program. ChildNet also needs to repay DCFS \$49,348 (\$61,717 - \$12,369) as required by the County contract.

Recommendation

- 1. ChildNet management repay DCFS \$49,348.**

CASH/REVENUE**Objective**

Determine whether cash receipts and revenue were properly recorded in the Agency's financial records and deposited timely in their bank account. In addition, determine whether the Agency maintained adequate controls over cash and other liquid assets.

Verification

We interviewed ChildNet's management and reviewed the Agency's financial records. We also reviewed the Agency's December 2007 bank reconciliations for two bank accounts.

Results

ChildNet properly recorded and deposited cash receipts timely. In addition, the Agency prepared bank reconciliations appropriately.

Recommendation

There are no recommendations for this section.

COST ALLOCATION PLAN**Objective**

Determine whether ChildNet's Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the Plan to appropriately allocate shared program expenditures.

Verification

We reviewed ChildNet's Cost Allocation Plan and accounting records for November 2007 to ensure that expenditures were properly allocated to the Agency's programs.

Results

ChildNet's Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the plan to appropriately allocate shared program expenditures.

Recommendation

There are no recommendations for this section.

EXPENDITURES**Objective**

Determine whether program expenditures were allowable under the County contract, properly documented and accurately billed.

Verification

We reviewed financial records and documentation for 49 non-payroll expenditures transactions totaling \$68,976 between August 2007 and February 2008.

Results

ChildNet maintained adequate documentation to support the non-payroll expenditures charged to the DMH and Wraparound programs.

Recommendation

There are no recommendations for this section.

FIXED ASSETS**Objective**

Determine whether fixed asset depreciation costs charged to DMH and the Wraparound programs were allowable under the County contract, properly documented and accurately billed.

Verification

We interviewed staff and reviewed the Agency's financial records related to fixed assets. In addition, we reviewed a sample of three fixed assets with depreciation costs of \$20,301 that the Agency charged to the DMH and Wraparound programs during FY 2006-07.

Results

ChildNet's fixed asset depreciation costs charged to DMH and the Wraparound programs were allowable under the County contract, properly documented and accurately billed.

Recommendation

There are no recommendations for this section.

PAYROLL AND PERSONNEL**Objective**

Determine whether payroll expenditures were appropriately charged to the DMH and Wraparound programs. In addition, determine whether personnel files were maintained as required.

Verification

We traced the payroll expenditures for 25 employees totaling \$36,203 charged to the DMH and Wraparound Programs for the bi-monthly pay period ending November 25, 2007 to the payroll records. We also interviewed 21 employees and reviewed 25 employees' personnel files.

Results

ChildNet's salaries and employee benefits were appropriately charged to the DMH and Wraparound Programs.

Recommendation

There are no recommendations for this section.

COST REPORT**Objective**

Determine whether ChildNet's FY 2006-07 Cost Report was completed in accordance with the County contract.

Verification

We traced the Agency's FY 2006-07 Cost Report to the Agency's general ledger.

Results

The total Agency expenditures listed on ChildNet's Cost Report reconciled to the Agency's general ledger.

Recommendation

There are no recommendations for this section.



October 15, 2008

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RE: Response to Auditor-Controller Contract Compliance Review for
the Wraparound and Department of Mental Health Contracts

Dear Ms. Watanabe:

We are very pleased by the attached compliance report for the
Wraparound and mental health contracts. The report specifically noted
that:

- 1) ChildNet provided services in accordance with the contract with
the Department of Mental Health.
- 2) ChildNet's treatment staff possessed the required qualifications to
provide the services.
- 3) Cash receipts and revenue were properly recorded in the financial
records and deposited timely in the bank account.
- 4) The Cost Allocation plan was prepared in compliance with the
County contract and the Agency used the plan to appropriately
allocate costs.
- 5) Documentation supported the expenditures charged to the DMH
and Wraparound programs.
- 6) Fixed assets charged to the DMH and Wraparound programs were
allowable and properly documented.
- 7) Payroll expenditures were appropriately charged to the DMH and
Wraparound programs.
- 8) The 2006-07 cost report was complete in accordance with the
County contract.

For the one recommendation in the report, we have listed the issue and our response below.

Issue, Unspent Revenue - Wraparound Program

ChildNet's FY 2006-07 contract with DCFS allowed the Agency to retain unspent revenue up to ten percent of their operating expenditures. The Agency is required to place the excess funds in a reserve account for future Wraparound expenditures. Any funds in excess of ten percent are required to be returned to the County.

For FY 2006-07, ChildNet's unspent revenue totaled \$61,717 and program expenditures totaled \$123,691. Their contract with DCFS allowed the Agency to reserve \$12,369 for future Wraparound expenditures and required them to repay DCFS \$49,348 (\$61,714-\$12,369).

Auditor-Controller Recommendation

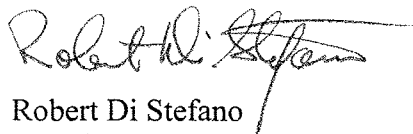
ChildNet's management to repay DCFS \$49,348.

ChildNet's Response

Fiscal year 2007 (the year audited) was our first year of providing Wraparound Services. Expenditures were unusually low totaling \$123,691 as we did not treat many children during the first year of operation. Therefore, the 10% reserve only totaled \$12,369 (10% x \$123,691). However, the budget has grown to approximately \$620,000 as we are treating many more children in Wraparound. Based on the current budget, a 10% reserve would total \$62,000 (10% x \$620,000). We believe the \$12,369 of reserves generated during fiscal year 2006-2007 is not indicative of the growth incurred in Wraparound since our first year of operations. Therefore, we are requesting that the unspent revenue of \$49,348 be applied to future year reserves, with the provision that the money will only be spent on Wraparound Services

Finally, we appreciate the time and effort spent during the review. We want to thank the auditors for the detailed compliance report and their professionalism exuded while they were here.

Sincerely,



Robert Di Stefano
President/CEO

cc: Allan Greenberg, CFO/VP Business Operations